United Nations A/53/811

General Assembly

Distr.: General
28 January 1999

Original: English

Fifty-third session
Agenda items 112 and 144

Review of the efficiency of the administrative and financial functioning of the United Nations

Report of the Secretary-General on the activities of the Office of Internal Oversight Services

Allegations of theft of funds by a United Nations Conference on Trade and Development staff member

Note by the Secretary-General

1. Pursuant to General Assembly resolution 48/218 B of 29 July 1994, the Secretary-General has the honour to transmit, for the attention of the General Assembly, the attached report, conveyed to him by the Under-Secretary-General for Internal Oversight Services, on the investigation into allegations of theft of funds by a staff member of the United Nations Conference on Trade and Development (see annex).

2. The Secretary-General takes note of the findings of the report and concurs with its recommendations.

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Annex

Report of the Office of Internal Oversight Services on the investigation into allegations of theft of funds by a staff member of the United Nations Conference on Trade and Development

Executive summary

The Investigations Section (IS) of the Office of Internal Oversight Services (OIOS) conducted an investigation between May 1996 and March 1997 into reported misuse or theft of United Nations funds by a Senior Administrative Officer in the Administrative Service of the United Nations Conference on Trade and Development (UNCTAD). The investigation proved that the Senior Administrative Officer had used his position in the Administrative Service to perpetrate at least 59 separate instances of theft between 1987 and 1996, without triggering any meaningful internal alarm of the ongoing, long-term illegal scheme. Moreover, since the Senior Administrative Officer's illegal activities were discovered by accident when he was on sick leave in mid-1996, it is reasonable to conclude that but for his absence, he would have continued his operation undetected until his retirement, which was then imminent. The basic scheme was simple: the Senior Administrative Officer obligated UNCTAD project funds to obtain cheques, issued by the United Nations Office at Geneva (UNOG) for as many as six fictitious experts at a time for daily subsistence allowance (DSA) payments, which he then cashed and utilized to maintain his lifestyle. Several times a year, the Senior Administrative Officer prepared documents purporting to raise DSA payments for these "experts", whom he claimed were already at Geneva for another conference. However, those experts did not exist; the conferences were never held; and some of the project account numbers used to charge the DSA payments never existed.

The findings of the investigation were provided to the Swiss judiciary. In late 1997, the Swiss Court heard the case, which included the staff member's admission at trial of his theft by deceit of nearly 730,000 Swiss francs (SwF) in United Nations funds. The Senior Administrative Officer has made restitution of SwF 495,000 or 68 per cent of the amount stolen, which required the liquidation of all of his assets, including his lump sum pension benefit. At the conclusion of the trial, the Swiss Court convicted him of the charges, ordered 18 months imprisonment and 10 years exclusion from Switzerland, and provisionally ordered him to repay the difference between the amount the Organization was able to recover from him and the total that he had stolen.

In addition, since the trial, IS has sought to determine what lapses may have occurred in UNOG and UNCTAD which contributed to the longevity of the Senior Administrative Officer's scheme. A report was provided to the Secretary-General of UNCTAD and the Director-General of UNOG, containing the details of the criminal enterprise and an analysis of the deficiencies in the management and operations of UNCTAD and UNOG as they existed when the Senior Administrative Officer was committing these crimes. Substantive discussions since then have led to the changes that have been enacted in recent months by UNCTAD and UNOG, beginning shortly after discovery of the scheme. OIOS also has included recommendations to enable UNCTAD and UNOG to recognize and identify fraud indicators so as to minimize the risk of repetition. The investigation benefited greatly from the consistent support and cooperation of staff members at all levels in UNOG and UNCTAD, as well as the assistance of an OIOS auditor at Geneva.

Contents

		Paragraphs	Page
I.	Introduction	1–3	4
II.	Criminal case	4–12	4
	A. Developing the scheme	7–9	5
	B. Proving the criminal case	10	5
	C. Obtaining recovery and sanctions	11–12	6
III.	Fraud indicators	13	6
IV.	Obvious deviations: how they were overlooked	14–20	7
V.	Responsibilities	21–30	8
	A. UNCTAD	24–28	9
	B. UNOG — FRMS	29–30	10
VI.	Findings	31–37	10
VII.	New management initiatives (responses by management)	38–42	11
	A. UNCTAD	39–40	11
	B. UNOG	41–42	11
VIII.	Recommendations	43–44	12

I. Introduction

1. The Senior Administrative Officer commenced his career with the United Nations in 1975 as an Administrative Officer at the level P–3, with the United Nations Conference on Trade and Development (UNCTAD). The following year, he was designated a Senior Administrative Officer, a function he held until mid-1996 after his thefts were confirmed. In 1992, the Senior Administrative Officer was promoted to P–5 and was designated as Senior Administrative Officer of the Operations Unit of UNCTAD's Administrative Service. His direct supervisor, for administrative and financial matters, was the Chief of UNCTAD's Administrative Service.

2. In order to succeed in the scheme, the Senior Administrative Officer needed the appropriate environment: i.e., limited supervision, a strong knowledge and personal control of administrative functions, a high level of confidence, and depending on the circumstances of each event, charm or arrogance when needed. By displaying a high degree of disorganization himself, which he portrayed as a function of his demonstrated alcoholism, he was able to capitalize on his colleagues' organizational fatigue of having to deal with him. This ensured that instead of alarming his colleagues that he might be undertaking some criminal enterprise, their perceptions were immediately routed to his alleged alcoholic hopelessness.

3. In mid-May 1996, the Senior Administrative Officer was on sick leave on account of his alcoholism. He telephoned one of his staff and pressured her to agree to adjust UNCTAD project account debits and credits in his end-of-month accounting reconciliations. Initially, the staff member refused because the changes were to be made by journal voucher entries, with which she was not familiar. However, the Senior Administrative Officer telephoned his office several times, increasing pressure on others in his support staff to make those changes. Eventually, the staff members reluctantly agreed to do so. In the course of trying to follow the directions from the Senior Administrative Officer, the two General Service staff members discovered that there were several irregularities in his accounting, which caused them to seek supporting documentation. Upon examining such documentation, they realized that the Senior Administrative Officer might have diverted money in April 1996 by claiming daily subsistence allowance (DSA) for designated "experts" who were otherwise unknown to the Organization for attendances at a conference they could not confirm. The two staff members then brought this information to the Officer-in-Charge, a P-4 who in turn advised the Chief of Administrative Service and senior management. UNCTAD management contacted the United Nations Office at Geneva (UNOG) administration to ask for a record search of the payments.

II. Criminal case

4. The initial complaint made by the United Nations to the judicial authorities of Geneva on 31 May 1996 caused the Senior Administrative Officer to be charged with having obtained funds from the United Nations by false pretences and forgery pursuant to sections 146 and 251 of the Swiss Penal Code. The complaint was sworn by the UNOG Director of Administration and UNOG Senior Legal Officer on behalf of the United Nations, which became *partie civile* in the proceedings. As such, the Secretary-General agreed to waive immunity for both officials, as had been done previously for the Senior Administrative Officer. Shortly after the swearing of the complaint, immunities were lifted for the two members of the OIOS investigation team in order to conduct the investigation into the Senior Administrative Officer's activities in cooperation with the Swiss authorities and to present the evidence before the *juge d'instruction*.

5. By his own admission as well as expert testimony before the Swiss Magistrate, the Senior Administrative Officer had been an alcoholic since at least 1987. His work colleagues at all levels confirmed that the Senior Administrative Officer had reached such a level of alcoholism that he was often dysfunctional and had become incapable of functioning in a professional manner. In the course of the court proceedings, the Senior Administrative Officer based his defence solely on his uncontrollable alcoholism. Yet the evidence adduced by the Office of Internal Oversight Services (OIOS) investigation proved that the Senior Administrative Officer, despite this purported dysfunctional illness, was able not only to invent a system with which he could divert organizational funds but also to manage a monthly cover-up device which required an extraordinary memory and technical bookkeeping skills in order to avoid detection.

6. For the criminal case to succeed, it was essential to prove that the meetings that the Senior Administrative Officer used to obligate funds were in fact fictitious; that the DSA recipients who allegedly attended those meetings were also fictitious; and that the Senior Administrative Officer should not benefit from a legal defence of diminished responsibility on account of his alcoholism. To counter the latter, it was necessary to find and provide the court with substantive evidence that the Senior Administrative Officer possessed well above-average mental capacity when he

developed and applied the multifaceted system he used to perpetrate the scheme.

A. Developing the scheme

7. Although the basic scheme was simple, the mechanics developed by the Senior Administrative Officer in order to avoid detection were complex, using a combination of actual and fictitious UNCTAD project numbers, realistic-sounding names of fictitious experts and open and closed UNCTAD projects. The scheme also required a sophisticated understanding of how the UNCTAD administration of projects and financial systems worked as well as of UNOG interventions that only a United Nations insider could develop.

(a) Manipulating in UNCTAD

8. To begin, the Senior Administrative Officer would simply obligate a sum of money, usually less than 15,000 Swiss francs (SwF), which he charged to an UNCTAD project account number using the miscellaneous obligation document (MOD). That sum of money would be the total amount of DSA for several days for several fictitious "experts" who were allegedly already at Geneva attending a conference or a meeting of experts; the DSA was necessary to cover their purported expenses to extend their stay either because the conference had been extended, or more often because a new meeting had been organized urgently in order to take advantage of their presence at Geneva. This would naturally create the impression of urgency to pay the fictitious attendees prior to their departure from Geneva, while at the same time allowing the Organization to save travel funds. The Senior Administrative Officer thus gave himself the advantage of bypassing the requirements and reviews attendant to the submission of travel documents. Utilizing his own authority in the Administrative Service of UNCTAD, the Senior Administrative Officer would prepare an MOD which he approved himself with the barest of details and no substantive supporting documentation. UNCTAD Administrative Service imposed no further review. Thus, his MOD, with a roster of names of experts attached, went — on his authorization alone — to the UNOG Financial Resources Management Service (FRMS) for approval and cheque issuance.

(b) Manipulating in UNOG

9. At first, when asked for supporting substantive documentation by FRMS personnel, he would advise them that such documentation would be forthcoming but that given the urgency it was not then available. That practice occurred so frequently between 1990 and 1996 that FRMS staff members became so accustomed to his practice of showing up by 11 a.m. demanding cheques before 3 p.m. that they never questioned him. The Senior Administrative Officer added to the perception of urgency by going personally to UNOG to walk the paperwork through FRMS so that he could collect the cheques payable to the "experts" in order to distribute them to the payees. This, in turn, caused FRMS to quickly authorize the issuance that same day of the required number of cheques. The Senior Administrative Officer would then collect the completed cheques in person from the FRMS Cashier. From there, he would walk through the Palais to the local bank branch offices, seeking out each time the same cashier. Like the FRMS staff, the teller became so used to his practice that she never questioned him. She would cash the cheques which he had endorsed with signatures of the fictitious payees. In an unnecessary but clever finishing touch the Senior Administrative Officer then, in front of the cashier, would place the cash in envelopes on which he had written the names of the fictitious "experts". This worked at least 59 times.

B. Proving the criminal case

10. After being confronted before the Swiss Magistrate with the evidence of his crimes which the Investigations Section (IS)/OIOS had developed, the Senior Administrative Officer admitted having defrauded the Organization in 59 transactions of SwF 730,000. In addition to developing the documentary evidence, IS/OIOS provided testimonial evidence, including statements from all UNCTAD project officers whose projects had been used by the Senior Administrative Officer, attesting that no conferences or meetings of experts had taken place as claimed in the MODs, and that the names of the alleged attendees were not known to them. In the cases where the Senior Administrative Officer used false project numbers, the OIOS investigation team was able to provide documentation and statements to the effect that no such project existed, and therefore could not have generated a conference or meeting of experts. For the terminated projects that the Senior Administrative Officer used, statements were also obtained from project officers who were able to certify that such projects had been completed and closed at the time when the conference or meeting of experts was alleged to have taken place. The Swiss law enforcement personnel were able to access the Senior Administrative Officer's bank accounts and the OIOS investigation team provided the analysis for the court,

demonstrating that each time that the Senior Administrative Officer diverted a sum of money from the Organization, there had been an equivalent deposit in one of his bank accounts within a short period of time. The most difficult phase of the investigation was the reconstruction of the system that the Senior Administrative Officer had used. To do this, the investigation team had to analyse every journal voucher that the Senior Administrative Officer had produced in the last 12 years. With the assistance of an UNCTAD technical expert and using a "protocol" system to identify suspect entries, the investigation team was able to isolate the journal vouchers which contained the Senior Administrative Officer's fictitious reconciliations. When extracted, those reconciliations could be shown to total the amounts initially stolen. Those analyses were documented so as to be accepted as primary evidence of the Senior Administrative Officer's wilful deceit.

C. Obtaining recovery and sanctions

11. As a result of the joint criminal and civil action undertaken by the United Nations in this case, the Organization was able to recover 68 per cent of the sum stolen by the Senior Administrative Officer. Following receipt of the evidence and his subsequent admission of guilt, the Senior Administrative Officer was ordered to repay the Organization the full admitted amount he had stolen. The Swiss Court was able to order the sale of his apartment in France. However, the Senior Administrative Officer also owned a property in the United States of America. The investigation team was able to monitor the selling activity for that property. In the course of the Swiss proceeding, the investigation team discovered that the Senior Administrative Officer had sold his United States property and had not informed the court. In order to maximize recovery, the investigation team was able to secure sufficient proof of the sale of his United States property. When that evidence was presented, the Swiss Court ordered the Senior Administrative Officer to remit the proceeds of the sale to the United Nations. In addition, the Senior Administrative Officer agreed to pay the lump sum pension payment he received from the United Nations Joint Staff Pension Fund to the United Nations as partial restitution.

12. As penalty for the commission of the 59 instances of theft, the Senior Administrative Officer was sentenced to 18 months of imprisonment, of which nine months had been served in custodial detention awaiting trial. As the Senior Administrative Officer had left Geneva following his termination from the United Nations service and the criminal investigation and was living in his home country with his family, he was not required to return to custody because the court also imposed 10 years exclusion from Switzerland, which began immediately. The court also issued a provisional order to repay the balance of the funds stolen.

III. Fraud indicators

13. One of the key questions which emerged was: How did the Senior Administrative Officer continuously embezzle funds from the United Nations for more than a decade without the scheme being discovered? The Senior Administrative Officer himself, in his first appearance before the Magistrate, claimed that he had been able to carry out his scheme because there were no controls. However, UNOG representatives and investigators who participated in the prosecution were able to demonstrate that the United Nations system of controls included the Senior Administrative Officer, who had abused that high position of trust to certify his own requisitions to perpetrate his scheme. It was argued that an employer might repose trust in an employee and that the latter is fully and personally responsible for his crimes. However, it is also true that the Senior Administrative Officer was able to systematically defraud the United Nations for more than 10 years without being discovered. The investigation found that there were a number of fraud indicators which were evident well before the Senior Administrative Officer virtually exposed himself by his requests to his staff in May of 1996. Some of those fraud indicators were in the areas of the Senior Administrative Officer's functions and responsibilities, which he was able to exploit. The fraud indicators, both systemic and personal, were:

(a) (Systemic) No separation existed between the functions that the Senior Administrative Officer was called upon to perform or for which he volunteered. He had four distinct functions in one portfolio of projects: budget, finance, accounting and the focal point for auditors. Those four functions (including his authority to certify expenditures on projects) in the one portfolio meant that he could hoard information, suppress transparency and deflect attention away from his own activities;

(b) (Systemic) UNCTAD carries a "pool fund", the "Terminated Project Account". Funds posted to such an account soon lose their project identity. The Senior Administrative Officer was able to debit that account of unidentifiable funds to repay the debits he had lodged against real, false or completed projects. It is also a

systematic high risk for an organization to let such an account accumulate large reserves;

(c) (Systemic) The certifying and approval functions had become routine and did not engender questions. In particular, the Senior Administrative Officer was able to completely control the requesting and certifying functions in UNCTAD, and to exploit the United Nations control system at the UNOG approval point;

(d) (Systemic) The control system allowed the Senior Administrative Officer to collect the cheques payable to others from the FRMS cashier. Moreover, he was the only senior officer who regularly collected cheques from FRMS;

(e) (Systemic) The absence of substantive documentation supporting his certified MODs was questioned only rarely and not at all in recent years. The fact that the approving officers accepted his certification without requiring the signature of the requisitioner of the expenditure allowed the Senior Administrative Officer to both initiate and authorize those expenditure requests;

(f) (Systemic) When the project data sheet (PDS) was designed, the Senior Administrative Officer argued successfully that the sheet should not contain any data on travel;

(g) (Systemic) The lack of coordination between the certifying function in UNCTAD and approving function in UNOG was a serious flaw. As explained below, FRMS did not possess a substantive list of UNCTAD projects, and could not properly verify whether or not the information the Senior Administrative Officer provided on his documents was true. Since United Nations Development Programme (UNDP) and UNCTAD lists contained discrepancies, the lack of a list of project numbers in FRMS was only emblematic of the larger project control problem in the UNCTAD Administrative Service;

(h) (Systemic) The United Nations obviously does not have a well developed and well publicized policy for dealing with alcoholism and other forms of addictions. Therefore, employees do not know how to deal with such cases among colleagues;

(i) (Personal) It was common knowledge among his colleagues in UNCTAD and UNOG and well known to his supervisor that the alcoholism of the Senior Administrative Officer was making him irresponsible and affecting his performance;

(j) (Personal) It was common knowledge that the Senior Administrative Officer was spending well above his means, particularly to pay for couturier clothing, alcohol, overseas golfing trips, golf membership, real estate, alimony and social occasions;

(k) (Personal) The Senior Administrative Officer was notorious for his sloppy work, his poor accounting methods, and unexplained debits and credits in his journal vouchers, which he insisted on compiling himself. His work was of such a low standard that it was euphemistically known as the "system Senior Administrative Officer";

(l) (Personal) The Senior Administrative Officer used to loudly describe his sexual encounters both within and outside the United Nations;

(m) (Personal) The Senior Administrative Officer was known for seeking pity by inventing personal catastrophe stories. His own supervisor, the Chief of Administrative Service, recounted to the investigators that once the Senior Administrative Officer was crying in his office. When asked why he was in such despair, the Senior Administrative Officer explained that he had a daughter who was suffering from a terrible drug addiction problem. The Chief of Administrative Service was so affected that he started crying himself. The next day the Chief learned that the whole story was a lie.

IV. Obvious deviations: how they were overlooked

14. There are two ways that the Senior Administrative Officer's scheme could have been discovered: first, it could have been discovered at the initiation point when he obligated funds for a fictitious meeting; second, it could have been discovered at reconciliation time when he submitted his journal vouchers at the end of each month or when the PDS showed an unexplained expenditure.

15. In the first case, namely discovery of the fraud at the beginning of the process, the Senior Administrative Officer never submitted any substantive documentation with his claims. It is clear and incontestable, in the case of UNCTAD, that DSA expenditures for experts attending a conference at Geneva can emanate only from a project officer who carries the substantive responsibility of implementing the project, and that a Senior Administrative Officer cannot be allowed to initiate the expenditure without substantive imprimatur. Yet in at least 59 cases in nine years, the Senior Administrative Officer presented certified obligations for such expenditures without that substantive imprimatur.

16. The Chief of Administrative Service told the investigators that he could not review the work of a Senior

Administrative Officer because the responsibility for such certification was personal under the financial rules. However, that rule does not — and cannot — be held to mean that certifying officers are not subject to supervision. The Chief claims that he never reviewed the Senior Administrative Officer's work despite his growing alcohol-related problems. That abrogation of the supervisory responsibility of a Chief allowed the scheme to grow and continue.

17. While there is evidence that the FRMS approving officers attempted, at least initially, to seek substantive documentation from the Senior Administrative Officer, they did not rigorously follow up in their attempts, nor did FRMS require proof by signature and other documentation of the actual payment to the experts, nor did FRMS reject his irregular journal voucher submissions.

18. In the case of the second instance, namely discovery at reconciliation time, the Senior Administrative Officer was renowned for submitting incomprehensible journal vouchers, which when closely examined by the investigators, revealed the fraud. Yet those journal vouchers, with all their erasures and lack of explanation, were also approved by the Senior Administrative Officer's focal point at FRMS. Interestingly, in 1984 the external auditors forwarded audit observations to UNCTAD, expressing concern about unexplained debits and credits in journal vouchers. But since the Senior Administrative Officer had volunteered to be the focal point for those and other auditors, he was given the responsibility of responding to the observations. On that occasion, he simply replied that the Administrative Service would be more diligent in its accounting. No follow-up was carried out to verify whether or not the Administrative Service of UNCTAD did become more diligent in its accounting, and it is clear that it did not.

19. Some UNCTAD project officers candidly told the investigators that the Senior Administrative Officer was known as the "fix-it" man, and that sometimes they had to contact him when they discovered that their project reports indicated an unexplained expenditure or shortage of funds. The Senior Administrative Officer would either rebuff their requests or advise that an error had been made in the project number, and he would re-establish the missing funds to the project account. Usually, this satisfied the concerned project officer. However, the project officers who explained those events were also those who examined the PDSs. Others who did not examine the PDSs could not have known that their projects' finances were being manipulated. At the substantive level, a lack of close monitoring of project expenditures by the project officers contributed to a breakdown in the control system.

20. In addition, there is one critical way in which the Senior Administrative Officer could have been prevented from continuing to perpetrate his fraud, namely by removing his authority to certify. It is interesting to note, from the list of fraud indicators, that in 1995 the Senior Administrative Officer was identified as no longer being a reliable staff member and was seen as chronically dysfunctional, with certified alcoholism. His own supervisor in UNCTAD, the Chief of Administrative Service, was aware of this since he had himself experienced the Senior Administrative Officer's lies and observed his behaviour on multiple occasions. He had sought to ease him out of the Organization on an agreed termination, and more to the point had ceased to appoint him as the Officer-in-Charge of Administrative Service in the absence of the Chief of Administrative Service, preferring to put a P-4 in charge. According to the Chief of Administrative Service, notwithstanding the Senior Administrative Officer's behaviour and state of health, he did not believe that he would have received the support from UNCTAD management to remove the Senior Administrative Officer from certifying status. There were sufficient grounds, however, based on the fraud indicators, for the Chief of Administrative Service to seek and obtain the support of UNCTAD's higher management to remove the Senior Administrative Officer from the list of certifying officers. The Chief of Administrative Service later stated that the Senior Administrative Officer had ceased to become his problem since he was under the care of the United Nations Medical Service, which would regularly clear him to return to work.

V. Responsibilities

21. Financial operations can be made to run satisfactorily provided that the system is supported by appropriate profile protocols, that is, clearly identifiable events, documents, procedures or activities that are designed to be followed so that any deviation will trigger an inquiry. Fraud risk specialists normally agree that without a sound mix of profile protocols, it is difficult to motivate those who are supposed to activate the control measures to increase the level of due diligence.

22. Within the framework of UNCTAD–UNOG, there were — at the time the Senior Administrative Officer was active — and there are still today the same profile protocols in existence, including the UNCTAD project/account number; the contents of the substantive memorandum submitted by the project officer who initiates a request for expenditure; the number of the obligating document; the

account against which the claim is made; and the monthly expenditures figures. These are some of the profile protocols or points of reference used by certifying and approving officers, in the exercise of their functions, to ensure that a claim for expenditure is legitimate. Needless to say, because expenditures in UNCTAD are based on the execution of projects, one of the most important and significant profile protocols is the project/account number. Not only is the assignment of the project number an important profile protocol in initiating expenditure but it also becomes an important point of departure in back-tracking the project's expenditure history. It is obvious that if those profile protocols are not coordinated when the two functions of certifying and approving are under the same roof, it can hinder the discovery of the potential for any illegitimate act. But when the two functions of certifying — in UNCTAD — and approving — in UNOG — are geographically and organizationally separated and those profile protocols are not coordinated, the risk of exploitation significantly increases.

23. In the course of the investigation, the OIOS investigators found it very difficult to locate information which identifies whether a project is active, completed or even fictitious. When the Senior Administrative Officer used a false project number, the investigators discovered how difficult it was to obtain concrete information which could unequivocally prove that such a project did not exist and had never existed. Indeed, many UNCTAD project officers, when shown those false project numbers, thought that such projects existed and even referred the investigation team to other project officers who they thought might be managing them. This occurred because both the numbers and the two or three word identifiers used by the Senior Administrative Officer were similar to those in use in UNCTAD. At one stage in the course of the investigation, it became necessary to request that UNDP provide a complete list of UNCTAD projects because UNDP was the funding source. That list was provided, but when it was checked against the UNCTAD projects list multiple inconsistencies were found. Difficulties were encountered, partly due to the long time period under scrutiny. Some projects were listed on the UNCTAD list which did not appear on the UNDP list, and vice versa. OIOS reconciliation of those inconsistencies had to be based on a combination of supporting documents — where they still existed — and the institutional memories of UNCTAD staff past and present. UNOG approving officers in FRMS were interviewed at the beginning of the investigation and asked if they had any lists of UNCTAD projects. They replied in the negative. FRMS approving officers had either manually compiled their own handwritten records of UNCTAD projects numbers, or because of the routine nature of approving expenditures on the same projects, had recalled certain features from the list based on previous expenditure claims by the UNCTAD project officers. Naturally, the approving officers' own projects list included some of the Senior Administrative Officer's false project numbers.

A. UNCTAD

24. Although for purposes of the criminal case it was sufficient to establish the Senior Administrative Officer's guilt by the evidence of his activities, in order to determine the underlying causes IS/OIOS examined operational deficiencies and hierarchical responsibility. The Senior Administrative Officer's autonomy was extreme, even after years of obvious alcoholism.

25. In an UNCTAD memorandum dated 9 August 1989 from the former Director for Programme Support and Management Services, the functions and responsibilities of the Administrative Service of UNCTAD are broadly described: "The Administrative Service has the responsibility for all commitments by UNCTAD in respect of staff recruitment contracts and of financial obligations for goods and services". The memorandum lists more specifically the responsibilities of the Administrative Service, including to receive all project implementation actions initiated in programme clusters/divisions involving project expenditures; to keep programme clusters/divisions informed of the action taken; to ensure that the annual mandatory revisions for UNDP projects are completed; to provide financial and personnel data regarding UNDP and trust fund projects required for the completion of PDSs; and to circulate the PDS on a regular basis to project officers.

26. In addition to the evidence provided in UNCTAD's policy documentation regarding its administrative arrangements for the Operations Unit, the Unit's product was a determining factor as to which supervisor held responsibility. When the Unit was concerned with assisting project officers in project input, for example, it is clear that the Unit would respond to the Chief of the Technical Cooperation Policy and Coordination Unit. However, when the Unit dealt with travel claims authorizations, DSAs, organizing meetings of experts and certifying obligations, it is clear that the Unit reported to the Chief of Administrative Service. In other words, the features of its output tended to characterize and identify the administrator responsible. It is also clear that the 59 fraud instances perpetrated by the Senior Administrative Officer fell

squarely within the control purview of the Administrative Service.

27. It is obvious, from the information contained in UNCTAD's own policy documents on administrative arrangements, that the Administrative Service holds the responsibility for the financial controls on project expenditures. With respect to supervision of any of the Senior Administrative Officer's requests to encumber the Organization's funds, legitimate or otherwise, it fell to the Chief of Administrative Service. Indeed, it was then and still is the Chief's responsibility to recommend the renewal of the official status of his staff in their capacity as Senior Administrative Officers so as to enable them to carry out the administrative duties that his office is required to fulfil. Neither the personal responsibility carried by each Senior Administrative Officer nor the assertion of the Chief of Administrative Service that he would not interfere with or involve himself in the assignments of the Senior Administrative Officer excuse his lack of supervision over the activities of this staff member. This is particularly the case from 1995, when by all accounts the Senior Administrative Officer's alcoholism was in regular evidence. The OIOS investigators found several fraud indicators upon which the Chief of Administrative Service could have relied to remove the Senior Administrative Officer's certifying authority.

28. Also, the absence of substantive documentation in the Senior Administrative Officer's obligating documents should have been cause for concern. UNOG approving officers stated that they had given up their attempts to obtain such documentation because, being General Service staff, they had been rudely rebuffed in the past and had no confidence in facing either the Senior Administrative Officer or his Chief. Based on their testimonies, it would appear that the relationship between FRMS in UNOG and Administrative Service at UNCTAD would not enhance the discovery of irregularities.

B. UNOG — FRMS

29. A clear deviation from the control system occurred on at least 59 occasions, when the Senior Administrative Officer presented a certified obligating document without any substantive documentation. The responsibilities of approving officers require that they ensure that all documentation necessary to justify the expenditure is supplied with the request. In interviews, FRMS staff members stated that when they questioned the Senior Administrative Officer on the missing documentation, he became either abusive or charming, depending on the person who asked. They stated that they had attempted on several occasions to seek documentation from the office of the Chief of Administrative Service of UNCTAD, and that they had been treated with disdain and rudeness. The designated approving officers at FRMS were mainly General Service staff, who felt too insecure and too low in the United Nations hierarchy to complain or approach anyone whom they could trust to undertake the necessary action. They admitted that they had not suspected that the Senior Administrative Officer was committing crimes but rather that he presented a "sad" and "pathetic" case of alcoholism.

30. The investigators assess that while it may be true that concerned FRMS staff who were approving the Senior Administrative Officer's obligations may have lacked the necessary courage or confidence, it is evident that the absence of substantive documentation should have been sufficient grounds for disapproving payment. Also, it is not clear to the investigators why it did not become apparent over the years to the approving officers, who approved the Senior Administrative Officer's obligations at the beginning of the process and who also approved his journal vouchers at the end of the process, that there was an obvious connection between the Senior Administrative Officer's obligations raised and the debits and credits entered in his journal vouchers.

VI. Findings

31. The Senior Administrative Officer had engaged in conduct which was demonstrably criminal, over a period of more than a decade, which caused a loss to the Organization of SwF 730,000, and which went undetected by the internal control systems of both UNCTAD and UNOG.

32. The Senior Administrative Officer abused his position as head of the Operations Unit of Administrative Service of UNCTAD to perpetuate his scheme, and violated the trust placed in him as a Senior Administrative Officer.

33. The Senior Administrative Officer had an admitted and obvious alcoholism problem, which his supervisors and colleagues observed had become worse over time and which led them to ignore his apparently dysfunctional and unprofessional conduct.

34. Without mitigating his personal responsibility, the Senior Administrative Officer was enabled to achieve his scheme by the failure of his supervisor, the Chief of UNCTAD's Administrative Service, to take action to remove his certifying authority, even after discovery of the scheme,

and by the failure of the UNOG approving officers to challenge his unorthodox submissions.

35. The autonomy accorded to the Senior Administrative Officer by the UNCTAD Administrative Service foreclosed the normal checks and balances that both supervision and separation of functions would have afforded UNCTAD.

36. The mechanical approvals of the Senior Administrative Officer's submissions to FRMS/UNOG demonstrated a lack of appropriate management oversight, resulting from the lack of UNOG financial exposure; the unclear demarcation of responsibilities between UNCTAD's Administrative Service and UNOG's FRMS by General Service staff who were the approving officers; and failure to challenge a P-5 level Senior Administrative Officer.

37. The lack of coordination and clearly defined authorities and responsibilities between UNCTAD and UNOG for administrative/financial functions not only assisted in the success of the Senior Administrative Officer's scheme but also contributed to confusion on the part of staff members about the scope of their functions.

VII. New management initiatives (responses by management)

38. In response to a detailed report given to UNCTAD and UNOG programme managers, both organizations have noted that they agree with the findings of OIOS, and have advised OIOS of their corrective measures as described below.

A. UNCTAD

39. UNCTAD has advised OIOS as follows:

(a) As the outcome of further review within UNCTAD and discussion with UNOG, the following additional procedures have been or are being implemented:

(i) Supervision over financial operations was formally strengthened after the Senior Administrative Officer affair was discovered by designating the Chief, of the Administrative Service as the main certifying officer for UNCTAD, with all other certifying officers designated as alternates to the Chief;

(ii) Future journal vouchers will bear the initials/signatures (a) of at least two *different* officials in UNCTAD — the staff member preparing them and the certifying or alternate certifying officer, and (b) of the approving officer in FRMS/UNOG;

(iii) Pending a decision on which office will issue allotment advices (i.e., Office of Programme Planning, Budget and Accounts/New York, FRMS/UNOG or UNCTAD itself), all approved UNDP project documents will be copied to FRMS/UNOG. Furthermore, no expenditure will be processed until FRMS/UNOG acknowledges receipt and entry of the financial data into their computer;

(iv) In connection with current PDSs, it should be noted that these include more information than is required for reporting to UNDP. For example, the PDS includes (a) in addition to the financial position at the end of the month, lists of current year and prior year obligations (which project officers use in order to identify obligations no longer necessary); (b) lists of consultants and experts employed on the project concerned, together with the periods of their contracts and nationality; and (c) graphic representation of how those contracts are scheduled for the current year. At the same time, with a view to making the PDS as user-friendly as possible, a small group, including three or four project officers and the Administrative Service, will review the PDS and propose any changes that it may feel are called for;

(v) The monthly allotment reports provided by UNOG to UNCTAD will be copied to the project officers together with PDSs, thus giving project officers the opportunity to confirm or correct PDS contents;

(b) It is understood that the above procedures will have to be reviewed as the financial side of the Integrated Management Information System (IMIS) is introduced in the course of 1999.

40. OIOS will monitor UNCTAD implementation.

B. UNOG

41. UNOG advised OIOS as follows:

(a) Two broad issues deserve comment. One was formally raised in the report, which is the issue of controls, and the other, which permeates the report and was raised in an OIOS management report on UNCTAD, is the issue of delegation of authority and delineation of responsibilities between UNOG and UNCTAD;

(b) On the issue of controls, UNOG has taken a series of measures (most of them very shortly after the fraud discovery) aimed at correcting a number of practices which

were not consonant with proper financial controls. In particular, the following control measures have been introduced:

(i) No obligation documents are accepted for recording purposes without the proper substantive documentation as justification for the request from departments. In cases where the required justification is not attached with the obligation document, then the responsible approving officers at FRMS request such attachments from the departments. All obligation documents without supporting justification are rejected;

(ii) All journal entry vouchers are carefully checked for validity and correctness. Any such vouchers not conforming to United Nations financial regulations and rules are questioned, and the departments concerned are requested to provide appropriate clarifications/corrections, as needed;

(iii) UNCTAD is now sending UNOG regularly and in a timely fashion the list of its projects to allow FRMS to verify the project reference numbers shown on the obligation documents;

(iv) With the introduction of an automated payment system via the bank, there are fewer cheques issued by the Treasury. UNOG also has an automated payment system for travel claims settlements, consultancy payments and vendor payments. The few cheques that are issued are now *non-negotiable* cheques, which *can only be cashed by the payee whose name appears on the cheque*;

(v) Instructions for cheque distribution and maintenance of control records for the Cashier's office have been issued;

(vi) Similarly, procedures are in place for the cancellation of cheques;

Furthermore, UNOG has taken due note of the above-mentioned list of fraud indicators, which it is using as a checklist to ensure that FRMS carries out its tasks in a more responsible manner and thereby avoids similar cases in the future;

(c) The issue of the delegation of authority and delineation of responsibilities between UNOG and UNCTAD is more complex since it may involve changes in the delegation of authority currently granted to UNCTAD both in the human resources and budget/finance fields. The approach to possible solutions seems to have evolved: on the one hand there originally appeared to be an intention to regroup in UNOG some of the functions/authority currently exercised by UNCTAD in the human resources and budget/finance fields, while on the other hand more recently there has been a definite call for more authority to be delegated to heads of departments in those fields.

42. OIOS will monitor UNOG implementation and follow-up on the issues raised.

VIII. Recommendations

43. The following are the recommendations of the present report:

Recommendation 1

UNOG and UNCTAD should form a joint administrative task force to meet regularly to ensure full discussion of issues. In the view of OIOS, a number of the deficiencies, such as the lack of project information from UNCTAD to UNOG, could have been easily corrected had the parties met regularly (IV96/071/01).

Recommendation 2

Managers in the UNCTAD Administrative Service and the UNOG Administration should review the qualifications and standing of all persons delegated to have either certifying and approving authority, mindful of the fraud indicators listed in the present report (IV96/071/02).

Recommendation 3

Managers in the UNCTAD Administrative Service and the UNOG Administration should supervise the activities and functions of all certifying and approving officers which can be done within the supervisory responsibilities of managers, without affecting the personal responsibility assigned to such officers under United Nations financial rules (IV96/071/03).

Recommendation 4

The Swiss court order allows the United Nations to recover all funds illegally obtained by the Senior Administrative Officer. UNOG and UNCTAD should undertake steps, with OIOS help, as appropriate, to identify his other assets to recover all of the stolen funds (IV96/071/04).

Recommendation 5

For monthly project reports to UNCTAD project officers, each responsible officer should be requested to acknowledge the accuracy of the information contained, and should be provided with the opportunity to question any of the information in writing on the document (IV96/071/05).

Recommendation 6

UNOG approving officers should be given detailed retraining on their obligation to challenge any and all documents received which do not conform to requirements, regardless of the grade level or title of the requesting official (IV96/071/06).

Recommendation 7

UNOG should develop a meaningful programme for the management of alcohol-related problems in Geneva-based offices (IV96/071/07).

Recommendation 8

The two General Service staff members who first identified the problem in this case should be officially acknowledged for their significant role, not only in reporting this scheme but also in demonstrating by their actions that they understand that the Secretary-General's reform programme also means personal accountability. Although OIOS does not normally name staff members in its reports, OIOS, with the management of UNCTAD, believes that the General Assembly may wish to take note of the contribution of the two UNCTAD staff members, Grace Ipak and Martine Eichenbaum (IV96/071/08).

44. Consultations between the investigators and managers of both entities have led to the development and the commencement of implementation of the key recommendations of the present report. As a result of this case, senior managers of both UNCTAD and UNOG have undertaken reforms to correct the vulnerabilities identified. The Senior Administrative Officer was terminated by the Organization. Following the secondment of the Chief of Administrative Service to another international organization at the Assistant Secretary-General level, UNCTAD management has committed its new Chief to reviewing its administrative operations.

(*Signed*) Karl Th. **Paschke**
Under-Secretary-General
for Internal Oversight Services